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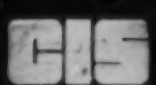

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100TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
100-63

VETERANS' ADMINISTRATION HOME LOAN PROGRAM

APRIL 23, 1987.—Referred to the House Calendar and ordered to be printed

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Mr. MONTGOMERY, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany H. Con. Res. 78]

The Committee on Veterans' Affairs, to whom was referred the concurrent resolution (H. Con. Res. 78) expressing the sense of Congress with respect to the Veterans' Administration Home Loan Program, having considered the same, report favorably thereon without amendment, by unanimous voice vote, and recommend that the concurrent resolution do pass.

INTRODUCTION

On Friday, March 6, 1987, in Phoenix, Arizona, the Veterans' Administration guaranteed its 12 millionth home loan. This brings the total value of loans guaranteed under this program to $275 billion. More than 7.5 million of these loans totaling $102.7 billion have been repaid through fiscal year 1986. This is a clear indication of the program's effectiveness in providing housing opportunities for millions of American families, the high level of responsibility which veterans who participate in the program have demonstrated over the years, and the program's continuing contribution as a stimulus to our nation's economy.

House Concurrent Resolution 78 recognizes the value and achievements of this program. The Subcommittee on Housing and Memorial Affairs met on March 19, 1987, and unanimously recommended House Concurrent Resolution 78 to the full Committee. On April 23, 1987, the full Committee unanimously approved House Concurrent Resolution 78, and ordered the resolution reported.

BACKGROUND

The VA home loan guaranty program was established under the Servicemen's Readjustment Act of 1944 (P.L. 78-346). As World War II drew to a close, Congress sought ways to ease the economic

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and sociological readjustment of returning service men and women to civilian life. The home loan guaranty program was an innovative means of affording veterans favorable credit which would allow them to purchase a home, business or farm. Many of these veterans, because of their service in the Armed Forces, had missed an opportunity for establishing personal credit or for accumulating enough money for a substantial downpayment on a home. By substituting the credit of the United States, these veterans were given the opportunity to enter the homebuying market on a comparable level with their nonveteran counterparts.

Although the objectives of the legislation were specific to the readjustment of returning veterans, rather than to influencing the economy as a whole, the VA home loan guaranty program created an excellent investment outlet for the large pool of savings that had been built up during World War II. Channeling this capital into a productive peacetime activity was perceived as a means of stimulating the economy and averting the possibility of post-war depression. Under the original program, guaranties could be made up to 50 percent of the loan, not to exceed $2,000. There was a 20-year maximum on repayment terms, and a maximum 4 percent interest rate.

Over the years, Congress enacted many changes to the program, to enhance its viability and to respond to developments in the economy and in the needs of veterans. There is now no delimiting date for a veteran to make use of this benefit, and entitlement may be regained once the veteran has paid off the initial loan in full and disposed of the property. The VA may guarantee 60 percent of the loan's value, up to a maximum of $27,500.

Since its inception in 1944 the VA home loan guaranty program has assisted literally millions of American families in becoming home owners. More than 1 million loans have been guaranteed in the last three years alone. Housing opportunities afforded under the program have provided a continuing stimulus to the economy, and have benefited veterans, lenders, homebuilders, local communities, and the entire nation.

The House of Representatives expresses its firm commitment to the goals and objectives of the program and to the veterans and service personnel whom it has served; expresses its appreciation to the thousands of VA employees who have enabled the program to guarantee 12 million loans; and expresses its recognition of the importance of this program in building stronger families and communities in the United States.

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100TH CONGRESS
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HOUSE OF REPRESENTATIVES

REPORT
100-64

VETERANS' ADMINISTRATION HOME LOAN FEE

APRIL 23, 1987.—Referred to the House Calendar and ordered to be printed

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Mr. MONTGOMERY, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany H. Con. Res. 79]

The Committee on Veterans' Affairs, to whom was referred the concurrent resolution (H. Con. Res. 79) reaffirming the sense of Congress that the 1-percent fee charged by the Veterans' Administration to veterans obtaining a home loan guaranteed by such Administration should not be increased, having considered the same, report favorably thereon without amendment, by unanimous voice vote, and recommend that the concurrent resolution do pass.

INTRODUCTION

For the last three years the President's budget has contained proposals to increase the 1 percent funding fee charged by the Veterans' Administration on guaranteed home loans. Congress has consistently rejected these proposals on the basis that this would be a form of selective taxation on homebuying veterans.

Public Law 99-576, which became effective on November 2, 1986, specifically expressed the sense of Congress that the funding fee on VA home loan guarantees not exceed 1 percent. The President's fiscal year 1988 budget, however, contains yet another proposal to increase the fee—to 2.5 percent effective June 1, 1987.

House Concurrent Resolution 79 reaffirms the sense of Congress on this issue. The Subcommittee on Housing and Memorial Affairs met on March 19, 1987, and unanimously recommended House Concurrent Resolution 79 to the full Committee. On April 23, 1987, the full Committee unanimously approved House Concurrent Resolution 79, and ordered the resolution reported.

BACKGROUND

In 1966, Congress approved the Veterans' Readjustment Benefits Act of 1966, better known as the "Cold War GI Bill." This act,

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among other things, made servicemen and post-Korean veterans, persons who had served on active duty in the Armed Forces after January 31, 1955, eligible for VA guaranteed home and farm loans and direct loans. Although the loan benefits for post-Korean veterans and servicemen were similar in type to those available for World War II and Korean veterans, there was one noticeable difference. Unlike the loans available to World War II and Korean veterans, the post-Korean loan program was subject to a one-time funding fee in the sum of one-half of 1 percent of the loan. In other words, the funding fee requirement was imposed by Public Law 89-358, in the interests of distinguishing between the "hot war" veterans of World War II and the Korean conflict and the "cold war" veterans of service after January 31, 1955.

The elimination of charging a funding fee to post-Korean veterans through the enactment of Public Law 91-506 on October 23, 1970, was a change rendered inevitable by events in Southeast Asia since 1965.

The President's fiscal year 1983 budget contained a proposal to reinstate the one-half percent loan processing fee for all loans guaranteed, insured or made by the VA. The Committee did not object to a modest funding fee, but did recommend that service disabled veterans be exempted. This was enacted in Public Law 97-253, which became effective October 1, 1982.

Congress later addressed issues involving deficiencies in the Loan Guaranty Revolving Fund caused by the high unemployment rate and subsequent foreclosure increase by the enactment of the Deficit Reduction Act of 1984, Public Law 98-369. In addition to requiring certain administrative reforms in the VA Loan Guaranty program, it increased the loan origination fee to 1 percent and required that these funds be deposited in the Loan Guaranty Revolving Fund. The bill included a sunset provision under which the 1 percent funding fee would expire on October 1, 1987.

Administration budgets for fiscal years 1986 and 1987 proposed increases in the funding fee of 5 percent and (on a graduated basis) 3.8 percent respectively. Such action was totally unacceptable to the Committee. Congress expressed its sense that the fee not be increased in section 409 of Public Law 99-576, the Veterans Health Care and Benefits Improvements Act of 1986.

The President's fiscal year 1988 budget, however, calls for an increase in the funding fee to 2.5 percent, effective June 1, 1987. This means, should such a proposal be enacted, that veterans would be charged an average amount of $1,500—up from $600—just for the privilege of using the program.

At hearings before the Committee on February 3 and 4, 1987, spokesmen from veterans organizations testified that implementation would negate the beneficial aspects of the program. It could also be considered as a downpayment requirement without giving the veteran the benefit of reducing the principal.

Additionally, raising the fee would eliminate a substantial number of potential veteran homebuyers from participating in the program. According to the Congressional Budget Office a rate of 2.5 percent could result in 20,250 fewer veterans using their entitlement to purchase a home in fiscal year 1988. The Committee notes that although interest rates are on the rise again, the 9½ percent

VA rate is still low in comparison with rates during the past 10 years. Some veterans are in a position for the first time to buy their own homes. To now impose an increased user fee on these potential homebuyers would place an undue burden upon them—in particular Vietnam era veterans who account for 42.1 percent of all VA guaranteed homebuyers.

Congress has repeatedly expressed its concern that increasing the VA home loan funding fee would, if enacted, have a serious detrimental effect on the ability of veterans to obtain loans for housing and would discourage home ownership. House Concurrent Resolution 79 reaffirms the sense of Congress that this fee should not be increased.

AGENCY REPORT

The following report expresses the views of the Veterans' Administration on H. Con. Res. 79.

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington DC, April 21, 1987.

Hon. G.V. (SONNY) MONTGOMERY,
Chairman, Committee on Veterans' Affairs, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This will respond to your request for a report by the Veterans' Administration on H. Con. Res. 79, 100th Congress, a resolution "Reaffirming the sense of the Congress that the 1-percent fee charged by the Veterans' Administration to veterans obtaining a home loan guaranteed by such Administration should not be increased."

Presently, 38 U.S.C. § 1829 imposes a fee of 1 percent of the loan amount upon veterans who obtain housing loans guaranteed, insured, or made by the Administrator, and upon persons who receive vendee loans from the Administrator in connection with the purchase of real property from the Administrator. Disabled veterans receiving compensation, or who would be entitled to compensation but for the receipt of retirement pay, and surviving spouses of veterans who died from a service-connected disability are exempt from paying this fee.

The President's budget calls for increasing the VA loan fee to 2.5 percent of the loan amount, effective June 1, 1987. We are also proposing to make this fee permanent.

The fee is collected at the time of loan closing, and may be financed with the loan. Proceeds from the fee are deposited into the Loan Guaranty Rovolving Fund (LGRF).

Pub. L. No. 89-358, which originally granted VA home loan benefits to post-Korean conflict veterans, required collection of such a fee. That provision was repealed by Pub. L. 91-506 in 1970. The Omnibus Budget Reconciliation Act of 1982, Pub. L. No. 97-253, § 406, reimposed a fee of one-half of 1 percent for loans to veterans closed after September 30, 1982. Authority to collect this fee was to expire September 30, 1985. The Deficit Reduction Act of 1984, Pub. L. No. 98-369, § 2511, increased the fee to 1 percent, required collection of the fee on vendee loans, and extended the fee until September 30, 1987.

Since 1978 the LGRF, which provides moneys for all loan guaranty operations except administrative expenses, has required over $2.1 billion in additional funds through transfers (totaling $1.5 billion) or appropriations (totaling $0.6 billion) in order to remain solvent.

To date in Fiscal Year 1987, $100 million has been transferred from the Direct Loan Revolving Fund. Budget projections show that the LGRF will need another transfer of $25 million in the latter part of the current fiscal year, and an appropriation of $389.8 million in Fiscal Year 1988. This projection is based upon a 1 percent fee. Current estimates indicate that, if the 2½ percent fee were enacted, an appropriation in Fiscal Year 1988 would not be necessary.

The VA home loan program has been and continues to be of great importance to present and former members of the Nation's Armed Forces who seek to become homeowners. However, we must be mindful that the costs to the taxpayers of operating the program and paying claims on loans resulting in foreclosure are significant. Since the Loan Guaranty program provides a unique benefit (i.e. no down payment terms) for a select group of beneficiaries, we believe that this group should bear a portion of the cost of providing the benefit through a modest, one-time fee. This fee, if financed, would increase the average veteran's monthly mortgage payment by less than $9.

Fairness requires that purchasers of VA acquired properties who obtain financing from VA (vendee loans) be required to bear costs which are comparable to those imposed upon veterans using their earned benefits. Losses associated with vendee loans are higher than losses associated with guaranteed loans because: (a) default rates are significantly greater; and (b) vendee loans are not a veterans' benefit (they are available to veterans and nonveterans alike).

In view of the increasing costs to the taxpayers of this program in recent years and the depletion of the LGRF, we believe increasing the fee is necessary. This is especially true in light of recent experience. Preliminary March 1987 data indicates a significiant increase in program expenditures has occurred. Obligations are estimated to be $220 million in March. This is $59.5 million over what was planned for the month and $52.9 million over the average monthly obligations incurred between October and February of the current fiscal year. If this increased activity were to continue, a supplemental appropriation may need to be requested.

Accordingly, VA strongly opposes enactment of H. Con. Res. 79.

We have been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee and that enactment of H. Con. 79 would not be in accord with the program of the President.

Sincerely,

THOMAS K. TURNAGE,
Administrator.

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